

Message Text

CONFIDENTIAL

PAGE 01 GEORGE 00828 01 OF 02 230028Z
ACTION ARA-06

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FM AMEMBASSY GEORGETOWN
TO SECSTATE WASHDC 4540
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C O N F I D E N T I A L SECTION 1 OF 2 GEORGETOWN 0828

LIMDIS

ALSO FOR AID, LA/CAR

COMMERCE FOR OIM/CAR

E.O. 11652: GDS
TAGS: ECON, GY
SUBJECT: GUYANA- ECONOMIC SITUATION WORSENS

REF: A) GEORGETOWN 0500, (B) GEORGETOWN 0255 (NOTAL,
(C) GEORGETOWN 0241

SUMMARY: "QUIET DESPARATION" BEST DESCRIBES THE ATTITUDE OF
HIGH-LEVEL GOG OFFICIALS ABOUT THE STATE OF GUYANA'S ECONOMY.
THE MAN ON THE STREET IS ASKING: "WHAT NEXT?" AVAILABLE DATA
SHOW CONCLUSIVELY THAT GUYANA IS NOT IN JUST "ANOTHER"CRISIS,
BUT IS ON THE THRESHOLD OF INSOLVENCY. END SUMMARY.

1. IN 1973 (US\$1.00 TO G\$2.10), THE LAST CRISIS, GDP
(G\$576 MILLION) AND GNP (G\$549 MILLION)--BOTH AT FACTOR
COST--SHOWED INCREASES OVER THE PREVIOUS YEAR. THE TRADE
BALANCE REGISTERED A G\$84 MILLION DEFICIT, WHILE THE BALANCE
ON CURRENT ACCOUNTS WAS SET AT MINUS G\$124.7 MILLION. IN
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PAGE 02 GEORGE 00828 01 OF 02 230028Z

1976 (US\$1.00 TO G\$2.545) THE ESTIMATED FACTOR COST GDP
(G\$1,050 MILLION) AND GNP (G\$1,000 MILLION) WERE
BELOW 1975 LEVELS. TRADE BALANCE IN 1976 REGISTERED A
MINUS G\$279 MILLION WITH THE BALANCE ON CURRENT
ACCOUNTS NEAR A MINUS G\$440 MILLION.

2. DURING 1976 GUYANA RELIED ON ACCUMULATED RESERVE

HOLDINGS AND BORROWINGS TO MEET LIQUIDITY REQUIREMENTS. NET RESERVE HOLDINGS AT THE END OF 1976 REACHED A MINUS G\$60 MILLION. IN THE LAST QUARTER OF 1976, GUYANA MADE USE OF BOTH ITS IMF GOLD TRANCHE AND AN EXTENDED FIRST CREDIT. ALSO, THE GOG NEGOTIATED A LOAN WITH THE ROYAL BANK OF CANADA (IN EXCESS OF CA.\$16 MILLION). A 10 MILLION SDR CREDIT WAS ALSO APPLIED FOR IN DECEMBER 1976 UNDER THE IMF'S COMPENSATORY FINANCING FACILITY. ACCORDING TO GOG DATA, FOREIGN DEBT AT THE END OF 1976 TOTALED G\$652.6 MILLION AND TOTAL PUBLIC DEBT WAS SET AT G\$878.8 MILLION.

3. IN RESPONSE TO THE "CRISIS" THE GOG ANNOUNCED AN AUSTERITY BUDGET FOR 1977. TOTAL MERCHANDISE IMPORTS IN 1977 ARE TO BE LIMITED TO G\$783.5 MILLION. A COMMITTEE (REPRESENTATIVES FROM THE BANK OF GUYANA, MINISTRY OF FINANCE AND MINISTRY OF TRADE AND CONSUMER PROTECTION) HAS BEEN ESTABLISHED TO ALLOCATE SCARCE FOREIGN RESERVES AND CONTROL THE AMOUNT OF GOODS BEING IMPORTED. AN IMPORT PRIORITY LIST WAS ALSO ESTABLISHED. NEVERTHELESS, GUYANA HAS FALLEN BEHIND ON PAYMENTS FOR SOME IMPORTS.

4. CURRENT GOG ECONOMIC POLICIES WERE BASED ON OVERLY OPTIMISTIC EXPECTATIONS FOR EXPORT EARNINGS. BY VALUE, COMPARED TO 1976 ESTIMATES OF 1977 SUGAR SALES WERE TO BE DOWN SLIGHTLY; BAUXITE SALES WERE TO INCREASE BY G\$100 MILLION; AND RICE EXPORTS WERE TO RISE SLIGHTLY.

5. THE GOG PREDICTED A 1977 SPRING SUGAR HARVEST OF
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PAGE 03 GEORGE 00828 01 OF 02 230028Z

113,000 TONS. HOWEVER, AS OF APRIL 1 (MID-SEASON), ONLY 42,566 TONS OF SUGAR WERE HARVESTED. IN 1975, THE SPRING HARVEST YIELDED 113,000 TONS. BY APRIL 1 OF THE LATTER YEAR, 49,000 TONS WERE HARVESTED. HOWEVER, THE YIELD OF SUGAR PER ACRE WAS NEARLY 3 TONS IN 1975. IN 1977, THE YIELD OF SUGAR PER ACRE IS SLIGHTLY LESS THAN 2 TONS. THUS, IN THE SPRING OF 1975 IT TOOK 15,000 ACRES TO PRODUCE 41,000 TONS OF SUGAR AS COMPARED TO 22,000 ACRES FOR THE 42,566 TONS PRODUCED SO FAR THIS YEAR. IN ADDITION, THE CURRENT DROUGHT WILL ALSO ADVERSELY AFFECT THE 1977 FALL HARVEST. THE DECREASED PRODUCTION COUPLED WITH DEPRESSED PRICES ON THE WORLD SUGAR MARKET MEANS THAT INCOME FROM SUGAR PRODUCTION FOR THE YEAR WILL BE SUBSTANTIALLY LESS THAN ANTICIPATED BY THE GOG.

6. CURRENT BAUXITE PRODUCTION ESTIMATES ARE CALCULATED ON A QUARTERLY BASIS WITH PROJECTIONS RE-CALCULATED AT THE END OF EACH QUARTER. OFFICIALS FEEL THAT 1977 BAUXITE PRODUCTION WILL BE ONLY SLIGHTLY HIGHER THAN LAST YEAR.

WEATHER CONDITIONS FOR MINING HAVE BEEN FAVORABLE SO FAR THIS YEAR. HOWEVER, THE RAINS ARE YET TO COME. WITH THE LIQUIDITY CRISIS WORSENING, DELAYS IN ACQUIRING NEEDED PARTS AND NEW MACHINERY IMPORTS WILL ALSO AFFECT PRODUCTION CAPABILITIES. IN ADDITION, THE INABILITY OF THE GOG TO PROVIDE ADEQUATE SERVICES TO MINE WORKERS CAN REKINDLE THE LABOR UNREST EXPERIENCED AT THE END OF 1976. BAUXITE PRICES ARE CURRENTLY CONSIDERED FAVORABLE. ALSO, PRICES ARE EXPECTED TO REMAIN FAIRLY STABLE IN THE COMING YEAR. RECENT INCREASES IN OIL PRICES WILL MAKE TRANSPORTATION OF BAUXITE EVEN MORE EXPENSIVE.

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PAGE 01 GEORGE 00828 02 OF 02 231138Z
ACTION ARA-06

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 INR-05 CIAE-00
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C O N F I D E N T I A L SECTION 2 OF 2 GEORGETOWN 0828

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7. DESPITE THE DROUGHT AND PROBLEMS IN THE IRRIGATION SYSTEMS, GOG OFFICIALS ARE NOW ESTIMATING THAT THIS YEAR'S SPRING RICE HARVEST WILL BE LARGER THAN EXPECTED. OFFICIAL ESTIMATES PUT THE SPRING RICE HARVEST AT A RECORD 80,000 TONS WHILE UNOFFICIAL ESTIMATES PREDICT 55,000-60,000 TONS. EVEN IF THE LATTER ESTIMATES ARE CORRECT, IN TERMS OF EARNINGS, RICE IS NOT A SIGNIFICANT FACTOR. BASED ON A 1971-1975 AVERAGE, THE TOTAL CONTRIBUTION OF THE RICE INDUSTRY TO GROSS DOMESTIC PRODUCT WAS APPROXIMATELY 2.7 PERCENT WITH RICE SHIPMENTS ACCOUNTING FOR ABOUT NINE PERCENT OF TOTAL EXPORTS.

8. GOG FOREIGN AND DOMESTIC RESERVES HAVE BEEN DEPLETED. WE BELIEVE PUBLIC DEBT FIGURES TO BE CONSERVATIVE (CLOSER TO G\$1 BILLION WOULD PROBABLY BE MORE ACCURATE). GUYANA'S ACCESS TO FOREIGN MONEY MARKETS IS LIMITED, AND FOREIGN GOVERNMENT ASSISTANCE, SO FAR, HAS BEEN CONFIDENTIAL

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PAGE 02 GEORGE 00828 02 OF 02 231138Z

MINUSCULE IN COMPARISON WITH NEEDS. DOMESTICALLY, A POOR SPRING SUGAR HARVEST WILL REDUCE THE GOG'S REVENUE FROM THE SUGAR LEVY. IMPORT RESTRICTIONS WILL CUT BACK REVENUES FROM IMPORT DUTIES AND THE CONSUMPTION TAX. IN ADDITION, WE ESTIMATE THAT COMMERCIAL AND CENTRAL BANKS ARE NEARING THEIR LIMIT IN GOG TREASURY BILL AND GOVERNMENT SECURITY HOLDINGS, AND THAT THESE HOLDINGS AT THE BEGINNING OF MARCH WERE IN EXCESS OF G\$350 MILLION.

9. THE CURRENT SITUATION CAN BE FURTHER DESCRIBED BY THE FOLLOWING ANECDOTES.

A. BECAUSE OF THE SCARCITY OF FOREIGN RESERVES, PRESIDENT CHUNG WAS REPORTEDLY NOT PERMITTED TO TAKE THE FOREIGN EXCHANGE EQUIVALENT OF G\$4,000 FROM HIS PERSONAL ACCOUNT WITH HIM ON HIS CURRENT TRIP TO THE PRC, NORTH KOREA AND YUGOSLAVIA. IN ADDITION, PRESIDENT CHUNG'S SON WAS NOT PERMITTED TO ACCOMPANY HIS FATHER ON THE TRIP.

B. RECENTLY, A PROMINENT GUYANESE (CLOSE TO BURNHAM) COMPLAINED TO US OFFICIALS THAT THE BANK OF GUYANA REFUSED HIM THE FOREIGN EXCHANGE NECESSARY TO PAY FOR HIS SON'S TUITION AT A UNIVERSITY IN THE USA.

C. BUSINESSMEN CONCERNED ABOUT THEIR CREDIT RATINGS HAVE INFORMED THE EMBASSY THAT ALTHOUGH THEY HAVE THE DOMESTIC CURRENCY REQUIRED TO PAY FOR GOODS ORDERED FROM OVERSEAS, THE BANK OF GUYANA DOES NOT HAVE THE FOREIGN EXCHANGE DEMANDED BY THE IMPORTERS.

D. THE MINISTRY OF EDUCATION, CULTURE AND SOCIAL DEVELOPMENT HAS STOPPED PAYMENT ON SOME CHECKS ISSUED BY THAT MINISTRY TO COVER VARIOUS ACTIVITIES.

E. GOVERNMENT-OWNED NEWSPAPERS ARE RUNNING A
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PAGE 03 GEORGE 00828 02 OF 02 231138Z

CURRENT DEFICIT OF G\$350,000. (THE "CHRONICLE" OWES THE OPPOSITION NEWSPAPER - THE "MIRROR" - G\$125,000 FOR NEWSPRINT.) GOVERNMENT CORPORATIONS ARE UNABLE TO PAY FOR ADS PRINTED IN THE GOG-OWNED NEWSPAPERS.

F. USAID HAS BEEN INFORMED THAT THE GOG DOES NOT HAVE MONEY AVAILABLE TO PAY GUYANESE WORKING ON AN AID PROJECT. SALARIES WILL BE PAID WHEN THE GOG RECEIVES THE USAID CONTRIBUTION.

G. BECAUSE OF A LACK OF FOREIGN EXCHANGE, GOG OFFICIALS WILL NOT BE ATTENDING THE 17TH BIENNIAL ECLA MEETING IN GUATEMALA.

H. ALTHOUGH LOCALLY PRODUCED FOOD PRODUCTS ARE AVAILABLE AT THE MARKETS, SHORTAGES OCCUR IN IMPORTED ITEMS SUCH AS CANNED MILK, JUICE, COOKING OIL AND FLOUR.

10. SINCE DECEMBER 1976, THE GOG HAS MANAGED A VERY BAD SITUATION IN A HIGHLY DISCIPLINED FASHION AND HAS THEREBY MINIMIZED THE VISIBLE ECONOMIC AND POLITICAL EFFECTS. WITHOUT SUBSTANTIAL ASSISTANCE FROM ABROAD, HOWEVER, THE GOG WILL BE FORCED TO IMPOSE EVEN MORE SEVERE IMPORT RESTRICTIONS AND RESCHEDULE DEBT PAYMENTS. A WORSENING OF THE ECONOMIC SITUATION WOULD WEAKEN THE STABILITY OF THE PRESENT GOVERNMENT. STERN MEASURES WOULD UNDOUBTEDLY BE ADOPTED TO CONTROL LABOR UNREST AND CONSUMER DISSATISFACTION, EVEN IN BURNHAM'S BLACK CONSTITUENCY.
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